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SUBJECT: KAZAKHSTAN: PETROCHEMICAL PROPOSAL ATTRACTS INVESTORS

REF: (A) ASTANA 0538 (B) ASTANA 0678

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11. (U) Sensitive but unclassified. Not for public Internet.

12. (SBU) SUMMARY: On April 29, Energy Officer met with Raushan Sarmurzina, Director of the Petrochemicals Department at the Ministry of Energy and Mineral Resources (MEMR), to discuss Kazakhstan's plans to develop a domestic petrochemical industry. Sarmurzina said that despite the economic crisis, the government is moving forward with plans to build a \$5 billion petrochemical complex near Atyrau by 2014. MEMR has already signed long-term contracts with Tengizchevroil (TCO) and the Kashagan consortium to supply the raw materials for production, and LyondellBasell Industries is expected to participate in the construction and management of the project. The government is also courting investors from South Korea and Saudi Arabia. When asked whether Chinese companies would participate in the project, Sarmurzina responded with a colorful, if xenophobic, tirade against the impending "Chinese invasion" and pleaded for Western companies to invest in Kazakhstan because they bring modern technology and operate according to high standards of health, safety, security, and environment, "unlike the Chinese." END SUMMARY.

"THE WHEELS ARE IN MOTION"

13. (SBU) Kazakhstan is committed to developing a large, multi-faceted petrochemical complex in Eskene, near Atyrau in western Kazakhstan, according to Sarmurzina. "The wheels are already in motion," she said, noting that MEMR has already signed ten-year contracts with TCO and AgipKCO, Phase One operator of the Kashagan oil field, to supply raw materials such as methane, propane, and ethane to the plant. TCO alone will supply 6-7 billion cubic meters of gas per year, according to press reports. According to Shell Kazakhstan's country manager Campbell Keir, Shell Global Solutions completed a preliminary feasibility study for the construction of the Atyrau petrochemical complex. Sarmurzina also said that MEMR hired the UK consulting firm Nexant to advise the government on structural design and infrastructure issues.

Construction of the complex will be carried out by Kazakhstan Petrochemical Industries, a 50-50 joint venture of Sat and Company LLC -- which used to own and operate the Atyrau polypropylene plant and the Aktau plastics plant -- and KazMunaiGas Exploration and Production, a subsidiary of national oil company KazMunaiGas. Sarmurzina said the petrochemical complex is expected to be complete by 2014 at a cost of \$5.4 billion.

#### CAN KAZAKHSTAN COMPETE?

14. (SBU) Sarmurzina said the government has already set aside 10 billion tenge (approximately \$67 million) for the complex from the 2009 budget, but will rely on foreign investment to carry out construction from 2010-2014. The forecasted capacity of the complex is 400,000 tons of low and high density polyethylene, 400,000 tons of linear low density polyethylene, and 400,000 tons of polypropylene a year. Sarmurzina said that up to 80 percent of production would be exported. She added that Atyrau is an ideal location for the facility because it is close to the source of its main feedstock (i.e., methane from Tengiz and Kashagan) and Atyrau used to be a leader in the petrochemical industry, so there are many qualified specialists already living in the region. (COMMENT: Bronek Dutkiewicz, an independent consultant who has worked at and designed petrochemical complexes throughout the world for more than fifty years, believes there is room in the marketplace for one very large petrochemical complex that would supply markets in Russia, Eurasia, and the Caucasus. "Whoever builds it first will capture that market," he said. END COMMENT).

#### LYONDELLBASELL INTERESTED, BUT CAUTIOUS

15. (SBU) Sarmurzina confirmed that the government has an agreement with the international division of LyondellBasell, a leading petrochemical company, to develop the Atyrau plant. "We're ready to start building tomorrow," said Sarmurzina, "but Lyondell is more

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cautious, because of the financial crisis." (NOTE: Per reftel A, on March 20, Bolat Akchulakov, Managing Director for Oil and Gas at Samruk-Kazyna, told Energy Officer that the Chapter 11 bankruptcy filing by LyondellBasell's U.S. affiliate will not affect the company's commitments to Kazakhstan. Akchulakov said that LyondellBasell remains the government's primary partner in the Atyrau Petrochemical Plant project. END NOTE.)

16. (SBU) On April 24, Dauren Yerdybai, Director of Kazakhstan Petrochemical Industries, said that LyondellBasell confirmed its interest in taking part in the project. "LyondellBasell confirmed the importance of the project and said it has clearance from U.S. regulators and sufficient funds available to finance its share in the project," he said. According to Yerdybai, even if the company does not officially join the project, the government will use LyondellBasell's license for the production of polyethylene and polypropylene, the supply of catalysts, and the maintenance and operation of the facilities.

#### KOREAN AND SAUDI INVESTORS ALSO INTERESTED

17. (SBU) On April 30, a managing director of National Welfare Fund Samruk-Kazyna, Aidan Karibzhanov, said that South Korean financial institutions are ready to finance up to \$1.5 billion for construction of the petrochemical complex. "Several Korean financial institutions, including Eximbank of Korea, have expressed an interest in financing the project," he said. Karibzhanov also said South Korea's LG Chemical and Saudi Arabia's SAPIC were interested in the project.

#### SURPRISING RANT AGAINST THE CHINESE

18. (SBU) When asked if MEMR would cooperate -- or compete -- with petrochemical producers in China, MEMR's Sarmurzina launched into an unexpected, vitriolic attack on the Chinese. "How many of them are there any way?," she asked rhetorically. "Five billion? Look out that window. See all that open land? They would settle all of Kazakhstan in a minute. We could easily be taken over by them. They want to come to Kazakhstan, marry our pretty Kazakh girls, and

settle here forever. Soon we'll all be Chinese! I wouldn't mind if the people they sent here were smart, but they send young country bumpkins who know nothing, have no idea how to do business, ignore safety precautions, and cause accidents. If the Chinese come, it will be a whole different deal. They will pay whatever it takes to secure our raw materials. We have to be very careful when dealing with the Chinese. Please," she pleaded, "send us Western companies who can bring modern technology and high standards for health, safety and the environment." (NOTE: On April 16, per reftel B, China agreed to provide \$10 billion to Kazakhstan, including \$5 billion to KazMunaiGas and \$5.0 billion to the Development Bank of Kazakhstan. END NOTE).

MILAS